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Federal Communications Commission
Office of the Secretary

PEÑASCO VALLEY TELECOMMUNICATIONS

*Access to the World... With a Local Touch*

February 11, 2008

GRANTED

JUN 23 2008

WIRELINE COMPETITION BUREAU

Mr. Albert Lewis
Division Chief, Pricing Policy Division
Federal Communications Commission
Room A225
445 12th Street SW
Washington, DC 20554

**Re: Request for Inclusion of Prepaid Other Post Employment Benefits in Interstate Rate Base Pursuant to 47 C.F.R. § 65.820(c).**

**Peñasco Valley Telephone Cooperative, Inc.**
**Study Area Code 260401**
**FRN 0001-6180-81**

Dear Mr. Lewis:

By this letter, Peñasco Valley Telephone Cooperative, Inc. (hereinafter alternatively "Peñasco Valley" or "Company") respectfully requests that the Commission grant the Company authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, Other noncurrent assets. Peñasco Valley is a rate-of-return incumbent local exchange carrier ("ILEC") and participates in the National Exchange Carrier Association ("NECA") common line and traffic sensitive pools. Peñasco Valley serves approximately 3,300 lines in rural New Mexico. As a pool participant, Peñasco Valley is an issuing carrier for the NECA access tariff, NECA Tariff F.C.C. No. 5 and bills rates pursuant to the tariff. The Company engages John Staurulakis, Inc. ("JSI"), *inter alia*, to assist in completing its annual cost studies for purposes of reporting to the NECA pools. The Company's rate base affects determination of its revenue requirement for each of the NECA pools.

## Background

Peñasco Valley's request is similar to that made by Roosevelt County Rural Telephone Cooperative Inc. ("Roosevelt") in a letter to the Wireline Competition Bureau dated

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October 25, 2004.[1] In its letter, Roosevelt requested Commission approval to include in its rate base the interstate portion of prepaid post-retirement health benefits recorded in Account 1410. On March 14, 2006, the Commission released an order granting Roosevelt's request.[2]

More recently, on February 1, 2008, the Wireline Competition Bureau released an order in which it grated authority to ten carriers to include in their respective rate bases the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, Other noncurrent assets.[3] The respective authorizations were in response to the separate letters filed by each carrier.

As a benefit to its employees, Peñasco Valley offers post-retirement health benefits. The Commission and industry generally refer to such benefits as "other post-retirement employee benefits" or "OPEBs." This benefit is funded through a pre-funding trust sponsored by the National Telephone Cooperative Association ("NTCA"). As of December 31, 2006, the Company's audited financial statements reflect an OPEB-related prepaid balance in Account 1410 of $275,702 representing prepaid post-retirement health benefits. Following is a summary of the prepaid post-retirement health benefits portion of the SFAS 106.[4]

**Summary of 12/31/2006 Peñasco Valley Accumulated Post-Retirement Benefit Obligation ("APBO") Applicable to Health Benefits**

| | 12/31/2006 Annual Report Balance |
|---|---|
| Accumulated Postretirement Benefit Obligation (APBO) | $ 2,780,027 |
| Plus: Unrecognized Prior Service Cost | 93,622 |
| Less Unamortized Actuarial Losses | 510,844 |
| Net Accumulated Post-Retirement Benefit Obligation (Net APBO) | 2,362,805 |

1 See letter from Scott Arnold, General Manager, Roosevelt County Rural Telephone Coop., Inc. dated October 25, 2004.

2 *Roosevelt County Rural Telephone Cooperative, Inc. Petition to Include the Interstate Portion of a Prepaid Accumulated Post-Retirement Benefit Obligation, Recorded in Account 1410, in the Rate Base*, WCB/Pricing 05-31, Order, FCC 06-31 (rel. March 14, 2006) (*Roosevelt OPEB Order*).

3 See *Requests of Duo County Telephone Cooperative, Inc., et. al., For Authority To Include In Its Rate Base The Interstate Portion Of The Prepaid Post-Employment Health Benefits Recorded In Account 1410, Other Noncurrent Assets*, WC Dockets No. 06-183, 07-19, 07-20, 07-33 and 07-150, Memorandum Opinion and Order, DA 08-284 (Released February 1, 2008) (*Duo County OPEB Order*).

4 Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

| | |
|---|---|
| Plan Assets at Fair Value | 2,638,507 |
| Prepaid APBO (Plan Assets less Net APBO) | $ 275,702 |

**Request**

In accordance with section 65.820(c) of the Commission's rules, Peñasco Valley seeks approval to include the interstate portion of the prepaid APBO applicable to health benefits in its rate base. The estimated interstate access portion of $276,000 (rounded) for a cost study year would be $114,800 (based on the 2006 cost study 41.6% interstate factor for Account 1410). The estimated interstate return on the interstate portion of the prepaid APBO would be approximately $12,900 at the current 11.25% interstate rate of return.[5] Based on the relatively small size of the Company, $12,900 annually is significant to Peñasco Valley. However, the Company believes any impact on overall NECA pool revenue requirements or universal service funding would be *de minimis*.

Section 65.820(c) of the Commission's rules allows inclusion of amounts accounted for in Account 1410, "only to the extent that they have been specifically approved by this Commission for inclusion."[6] In its 1997 *Part 65 OPEB Treatment Order*, the Commission established that where a carrier "can show that any of its assets recorded in Account 1410 (including prepaid OPEB) meet the used-and-useful standard, we will allow that asset to be included in the interstate rate base."[7] Thus, Peñasco Valley requests that the Commission grant authority pursuant to Section 65.820(c) to Peñasco Valley for inclusion of the prepaid post-retirement health benefits residing in Account 1410. The Company provides the following to establish that its prepayments meet the used-and-useful standard.

As communicated to Peñasco Valley by the trustee for its OPEB plans, NTCA, prefunding serves to reduce annual expense for OPEBs. A copy of the trustee's letter is attached. As a rate-of-return carrier, the interstate portion of the reduced expenses will reduce the Company's future interstate revenue requirements and, in turn, the rates paid by interstate access customers. In the *Roosevelt OPEB Order* the Commission found that Roosevelt's prepaid post-retirement health benefits met the used-and-useful standard and granted authority to Roosevelt to include in its rate base the interstate portion of the

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5 Because Peñasco Valley is a cooperative, the company does not pay income taxes on its interstate access revenue and thus the interstate impact does not include any gross-up for income taxes.

6 47 C.F.R. § 65.820(c).

7 *Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, Amendments to Part 65, Interstate Rate of Return Prescription Procedures and Methodologies, Subpart G, Rate Base*, CC Docket No. 96-22, AAD 92-65, Report and Order, 12 FCC Rcd 2321, FCC 97-56 (Rel. Feb 20, 1997) ("*Part 65 OPEB Treatment Order*") at par. 12.

prepaid post-employment health benefits recorded in Account 1410, beginning with the date the prepayments were made. The Wireline Competition Bureau maid similar findings for the ten carriers granted authorization in its recent *Duo County OPEB Order*. Peñasco Valley's situation with respect to prepaid post-employment health benefits recorded in Account 1410 is reflective of Roosevelt's circumstances and those of the ten carriers covered by the *Duo County OPEB Order*.[8] Therefore, Peñasco Valley believes that it has satisfied the used-and-useful standard for inclusion of the interstate portion of prepaid post-retirement health benefits in the rate base.

Please direct any requests for information or questions to:

John Staurulakis, Inc.
Scott Duncan, Staff Director –Regulatory Affairs, or
John Kuykendall, Director – Regulatory Affairs
7852 Walker Drive, Suite 200
Greenbelt, MD 20770
301-459-7590
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8 In the *Duo County OPEB Order*, the Wireline Competition Bureau granted authorization for both prepaid post employment health insurance and prepaid post employment life insurance for three carriers and authorization for only prepaid post employment health insurance for seven carriers in response to the respective specific requests of the individual letters filed by each Company. The three carriers requesting authority with respect to both prepaid post employment health benefits and prepaid post employment life insurance were Brazos Telephone Cooperative, Inc., North Central Telephone Cooperative, Five Area Telephone Cooperative, Inc. The seven carriers requesting authority limited to prepaid post employment health benefits were Duo County Telephone Cooperative, Inc., Riviera Telephone Company, Inc., Central Texas Telephone Cooperative, Inc., Big Bend Telephone Cooperative, Inc., Wes-Tex Telephone Cooperative, Inc., Cap Rock Telephone Cooperative, Cumby Telephone Cooperative, Inc. See Duo County OPEB Order at note 24.

Based on meeting the used-and-useful standard with respect to its prepayment of post-retirement health benefits, Peñasco Valley respectfully requests that the Commission, as it did in response to Roosevelt's request, grant Peñasco Valley authority to include in its rate base the interstate portion of the prepaid post-employment health benefits recorded in Account 1410, beginning with the date the prepayments were made.

Sincerely,

PEÑASCO VALLEY TELEPHONE COOPERATIVE, INC.

Robert K. Crumrine
Chief Financial Officer

Attachments

NTCA

*The Voice of Rural Telecommunications*

April 7, 2006

# Memorandum

TO: Bob Crumrine

FROM: Lisa Altman, Sr. FAS 106 Technician

SUBJECT: Penasco Valley Telephone

On April 6, 2006, we discussed the FAS 106 liability and how that liability is impacted by the 106 Prefunding in which Penasco Valley Telephone participates. This prefunding does play a partial role in lessening the overall FAS 106 liability of the company. This reduction of the liability manifests itself in several ways:

1. The Expected Rate of Return on Assets (determined by Lake Consulting Inc., the FAS 106 Program) is historically set as to what the return would be over a 30-year period depending on the investment philosophy of the prefunding Trusts. The FAS 106 statement requires that we use the Expected Return on Assets when performing the FAS calculation. This Expected Return on Assets is included in the Net Periodic Postretirement Benefit Cost section of the FAS 106 valuation and in this calculation the expected return reduces the liability which in return reduces the annual expense for that particular year.

2. The Total Assets on deposit as of the first day of the year are also included in the calculation process. The Assets reduce the Accumulated Postretirement Benefit Obligation (APBO) creating the Unfunded APBO figure. This Unfunded APBO has several areas of impact, including interest calculations, the Accrued/Prepaid figure and the Net Loss/Gain Calculations.

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3. The prefunding account also has a direct impact on the Financial Statements of the company. As the Assets on deposit accrue earning (either negative or positive), the company would have this asset to offset the liability that would be accruing on the financial statements.

These are a few of the advantages of FAS 106 Prefunding and how they impact the FAS 106 liability being reflected on the financial statements. If you have further questions, do not hesitate to contact me by phone at (828) 255-2972 or by e-mail at lbennie-altman@ntca.org.

LBA